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FM AMEMBASSY TOKYO

TO RUEHZU/ASIAN PACIFIC ECONOMIC COOPERATION PRIORITY

RUEHRL/AMEMBASSY BERLIN PRIORITY 1513

RUEHLO/AMEMBASSY LONDON PRIORITY 2210

RUEHOT/AMEMBASSY OTTAWA PRIORITY 9733

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RUEHRO/AMEMBASSY ROME PRIORITY 2181

RUEHFK/AMCONSUL FUKUOKA PRIORITY 0412

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RUEHC/SECSTATE WASHDC PRIORITY 7986

C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 002885

SIPDIS

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TAGS: ECON EFIN JA

SUBJECT: JAPANESE FOLLOW UP ON G-7 ACTION PLAN

TOKYO 00002885 001.2 OF 002

Classified By: Ambassador J. Thomas Schieffer for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: Finance Minister and Financial Services Minister Shoichi Nakagawa released a statement October 14 outlining Japan's follow-up policies to its October 10 G-7 Action Plan. The Plan calls for relaxing rules on corporate stock buy-backs, greater transparency in selling short, and temporarily suspending further sales of public equities by Japan's Bank Shareholding Purchase Corporation (BSPC). Minister Nakagawa has also announced measures aimed at boosting the availability of credit for Japanese small- and medium-sized enterprises. On October 15, Minister Nakagawa met with major and regional Japanese banks and reportedly urged them to increase the flow of capital. While the measures may have some economic impact, there is a sense the SME measures are motivated as much by electoral considerations as a response to the financial crisis. END SUMMARY.

Stock Market Measures

¶2. (C) Minister Nakagawa announced three specific steps October 14 that build upon the G7 Action Plan of October 10. The steps, which are relatively modest, are:

a) Relaxation of Rules on Corporate Stock Buy-Backs: Two limits are relaxed. First, firms are now able to repurchase shares up to the average daily trading volume of the last four weeks (rather than only up to 25% as previously allowed). Second, firms are able to repurchase shares between 2:30 PM and the market close at 3:00 PM, when there is likely to be a large impact on the closing price.

b) Greater Disclosure of Short-Selling: Japan has had a version of the uptick rule, which prohibits investors from selling short at a level equal to or lower than the last traded price, since March 2002. (The U.S. abolished its uptick rule in June 2007.). Financial Services Agency (FSA) officials have said privately that they did not feel the need to introduce additional restrictions; their principal concern was monitoring short-selling of Western financial institutions that are dual listed in Japan.

c) Suspension of Sales of Public Equity Holdings: The Bank Shareholding Purchase Corporation (BSPC) purchased JPY 1.6 trillion in shares from 2002-06 in an effort to insulate bank balance sheets from equity market volatility. The BSPC has gradually sold off those shares since April 2006 and its holdings are now down to JPY 500 billion. The Bank of Japan (BOJ) holds JPY 1.4 trillion in shares of the JPY 2.0 trillion it bought from 2002 to 2004. Upon Nakagawa's request to alleviate further downward pressure, the BOJ suspended its sales October 14.

Measures to Promote Lending to SMEs

¶3. (C) Nakagawa's other measures target Japan's small and medium size enterprises (SMEs). The perception is small banks are refraining from lending to otherwise creditworthy SMEs restricting their business operations. SME creditworthiness aside, Japan's smaller banks are weaker today than the larger banks that were the focus of government intervention between 1997-2004. Nakagawa, therefore, has proposed reviving an expired 2004 law to allow public capital injections into smaller banks. Nakagawa convoked bank CEOs to a meeting October 15 to urge further lending to SMEs; there are political benefits for the LDP to this measure in the run-up to Lower House elections.

¶4. (U) Lastly, in the wake of Yamato Life's bankruptcy, the government has signaled it is likely to extend the current life insurance Policyholder Protection Corporation, set to expire in March 2009, including government financial

TOKYO 00002885 002.2 OF 002

support if private contributions fall short in resolving a failed insurer.

SCHIEFFER